



County of Los Angeles CHIEF EXECUTIVE OFFICE

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Chief Executive Officer

December 2, 2009

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From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE

Senate Consideration of Health Care Reform Legislation

This week, floor debate began on comprehensive health care reform legislation (H.R. 3590), pursuant to a motion to proceed with the debate, which was approved with the minimally required 60-vote majority on November 21, 2009. The Senate Democratic Leadership is hoping for a vote on final passage before December 23, 2009. The latest Senate version combines provisions from separate bills previously approved by the Senate Finance and Health, Education, Labor, and Pensions Committees with some modifications. The Congressional Budget Office (CBO) estimates that the total ten-year cost of expanded health coverage would be \$848 billion and that the bill would achieve net Federal cost savings of \$130 billion after its offsetting spending cuts and revenue increases are counted.

Of importance to the County, beginning in 2014, the Senate bill would expand Medicaid coverage to non-elderly persons with incomes up to 133 percent of the Federal poverty level (FPL), including medically indigent adults who currently are categorically ineligible for Medicaid and whose health care needs are a county responsibility under State law. The Federal Medicaid match rate (FMAP) for medical assistance provided to newly Medicaid eligible persons would be 100 percent for all states in Federal Fiscal Years (FFYs) 2014 through 2016. California's FMAP would drop to 84.3 percent in 2017, 83.3 percent in 2018, and 82.3 percent in subsequent years. Bill language also is included that would preserve unused Graduate Medical Education (GME) residency

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slots for the Martin Luther King, Jr. (MLK) - Harbor Hospital, which otherwise would be subject to reallocation in the bill.

The Senate bill would achieve an estimated \$22.4 billion in Federal cost savings from reductions in Medicaid Disproportionate Share Hospital (DSH) allotments to states in FFYs 2015 through 2019, which would take effect in the first fiscal year after FFY 2012 in which a state's percentage of uninsured individuals falls by at least 45 percent below the percentage of such individuals in 2009. In the first year in which this trigger is met, California would be subject to a 50 percent reduction in its DSH allotment. If the rate of uninsurance in a state continues to decline in subsequent years, then the state's annual DSH allotments would be proportionally reduced up to a maximum reduction of no more than 65 percent of its FFY 2012 DSH allotment.

The Senate's bill major revenue raiser, which could affect the County, is a 40 percent excise tax on "high cost" employer-sponsored insurance plans that would be imposed. Beginning in 2013, the 40 percent tax would be applied to health premiums exceeding thresholds of \$8,500 for individuals and \$23,000 for family coverage with higher thresholds of \$9,850 for individual and \$26,000 for family coverage for employees in high-risk occupations (e.g., law enforcement and firefighting) and retirees over age 55 who are not eligible for Medicare. As estimated by the CBO, the new tax would raise \$149 billion in 2013 through 2019, increasing from \$7.1 billion in 2013 to \$34.7 billion in 2019. Its fiscal impact will grow significantly over time largely because health insurance premium costs are projected to grow at a much faster rate than the annual adjustment for the excise tax threshold, which will be tied to the Consumer Price Index for Urban Consumers (CPI-U) plus one percentage point, making more costs subject to the tax in each succeeding year.

House Health Care Reform Bill

On November 7, 2009, the House passed 220 to 215, its health reform bill (H.R. 3962), which the CBO has estimated that its expanded health coverage would cost \$1.052 trillion over ten years and that the bill would achieve net Federal cost savings of \$138 billion after its offsetting spending cuts and revenue increases are counted. The House version would expand Medicaid coverage to more persons with a smaller state share of costs than the Senate bill. Under H.R. 3962, Medicaid would be provided to non-elderly persons with incomes up to 150 percent of the FPL with a Federal Medicaid match rate for newly Medicaid eligible persons of 100 percent in 2014 and 91 percent for all states in each subsequent year. The House bill also includes language which would preserve GME residency slots for MLK-Harbor Hospital and the LAC+USC Medical Center.

The House bill also is better for the County than the Senate bill in three major respects:

- The House, but not Senate, bill would extend the temporary FMAP increase for Medicaid and Title IV-E foster care and adoption assistance enacted under the American Recovery and Reinvestment Act of 2009 for an additional six months through June 30, 2011. This six-month extension in the FMAP increase would cost an estimated \$23.5 billion, according to the CBO.
- The House bill would reduce Medicaid DSH payments by a total of \$10 billion – far less than the estimated \$22.4 billion reduction in the Senate version. Under the House bill, Medicaid DSH funding is reduced by \$1.5 billion in 2017, \$2.5 billion in 2018, and \$4.0 billion in 2019 with the Secretary of Health and Human Services directed to impose the largest percentage DSH reductions on States that have the lowest percentages of uninsured individuals (determined based on audited hospital cost reports) or that do not target their DSH payments on hospitals with high volumes of Medicaid inpatients or high levels of uncompensated care.
- Unlike the Senate bill, the House bill does not impose any excise tax on employer-sponsored insurance plans.

Pursuit of County Position on Legislation

Efforts are underway to generate support of Members of Congress from Arizona, California, and Nevada to support an extension of the Hoover Power Plant Act of 1984. The Act, which governs the allocation of water and power from the Hoover Dam, is currently scheduled to expire in 2017. Next month, Congress Member Napolitano (D - CA) and Senate Majority Leader Reid (D - NV) are expected to introduce the Hoover Power Allocation Act of 2009 to extend the Act. Several entities, including the cities of Burbank, Glendale, and Los Angeles, the Metropolitan Water District, and Southern California Edison are supporting the proposed legislation to extend the 2017 deadline, which would essentially keep current contracts governing the allocation of energy resources in place.

Hoover power was first allocated by Congress in the Boulder Canyon Project Act of 1928. In 1984, Congress again allocated Hoover power through contracts with state, municipal and utility contracts, which expire in 2017. The Internal Services Department (ISD) indicates that the Hoover Power Plant has provided clean, low-cost power to citizens, businesses, and municipalities in Los Angeles County for decades, and the citizens of the County have benefited from the investments made by the Metropolitan Water District, Southern California Edison, and the cities of Los Angeles, Glendale, Burbank, and Pasadena to keep the Hoover Power Plant viable and reliable. ISD states

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that passage of legislation to extend the current contracts governing the allocation of energy resources is critical to ensuring the continued availability and reliability of Hoover power to the citizens of Arizona, California, and Nevada.

The Internal Services Department and this office support the proposed Hoover Power Allocation Act of 2009. Support for this proposal is consistent with existing policy to support efforts to ensure reasonable wholesale rates for electricity. Therefore, **the Washington, D.C. advocates will support legislation that would extend the Hoover Power Plant Act beyond the 2017 expiration date and keep current contracts governing the allocation of energy resources in place.**

We will continue to keep you advised.

WTF:RA
MT:sb

c: All Department Heads
Legislative Strategist